

Ms. Alyce James, Administrator  
Marion Nursing Center, Inc.  
Highway 501  
Marion, South Carolina 29571

Re: AC# 3-MAR-J7 – Marion Nursing Center, Inc.

Dear Ms. James:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Mac Carroll

**MARION NURSING CENTER, INC.**

**MARION, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1998  
AC# 3-MAR-J7**

**REPORT ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 4, 1998

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Marion Nursing Center, Inc., for the contract periods beginning October 1, 1998 and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Marion Nursing Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Marion Nursing Center, Inc. dated as of October 1, 1995 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
December 4, 1998

The South Carolina Department of Health and Human Services has not received formal approval from the United States Health Care Financing Administration (HCFA) of Attachment 4.19D of the South Carolina State Plan under Title XIX (Medicaid) for the contract periods beginning October 1, 1998, as required by regulations of the United States Department of Health and Human Services (HHS). The effects of any adjustments that may be necessary if the State Plan, as submitted, is modified to receive the approval of HCFA cannot presently be determined.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA  
State Auditor

**MARION NURSING CENTER, INC.**  
Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1998  
AC# 3-MAR-J7

	10/01/98- <u>11/30/98</u>	Beginning <u>12/01/98</u>
Interim reimbursement rate (1)	\$89.12	\$89.87
Adjusted reimbursement rate	<u>88.45</u>	<u>89.20</u>
Decrease in reimbursement rate	\$ <u>.67</u>	\$ <u>.67</u>

(1) Interim reimbursement rates from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated October 19, 1998 and Department of Health and Human Services Rate Computation dated November 12, 1998

**MARION NURSING CENTER, INC.**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1998 Through November 30, 1998  
AC# 3-MAR-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$39.46	\$43.39	
Dietary		10.77	9.93	
Laundry/Housekeeping/Maint.		<u>13.47</u>	<u>8.11</u>	
	\$ -	63.70	61.43	\$61.43
Administration & Med. Rec.	<u>3.33</u>	<u>7.57</u>	<u>10.90</u>	<u>7.57</u>
	<u>\$3.33</u>	71.27	<u>\$72.33</u>	69.00
<u>Costs Not Subject to Standards:</u>				
Utilities		2.12		2.12
Special Services		.89		.89
Medical Supplies & Oxy.		3.18		3.18
Taxes and Insurance		1.20		1.20
Legal Fees		<u>.04</u>		<u>.04</u>
<b>TOTAL</b>		<u>\$78.70</u>		76.43
Inflation Factor (3.60%)				2.75
Cost of Capital				7.40
Cost of Capital Limitation				(.13)
Profit Incentive (Max. 3.5% of Allowable Cost)				2.75
Cost Incentive - For Gen. Serv, Dietary, LHM				-
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(1.00)
Minimum Wage Add On				<u>.25</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$88.45</u>

**MARION NURSING CENTER, INC.**  
Computation of Adjusted Reimbursement Rate  
For the Contract Periods Beginning December 1, 1998  
AC# 3-MAR-J7

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Cost Incentive - For Gen. Serv, Dietary, LHM				-
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(1.00)
Minimum Wage Add On				<u>1.00</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$89.20</u>

**MARION NURSING CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1997  
AC# 3-MAR-J7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,229,304	\$ -	\$ -	\$1,229,304
Dietary	334,380	1,104 (7)	-	335,484
Laundry	74,033	-	-	74,033
Housekeeping	162,602	-	-	162,602
Maintenance	183,053	-	-	183,053
Administration & Medical Records	240,211	-	1,377 (2) 3,099 (3)	235,735
Utilities	66,177	-	-	66,177
Special Services	27,715	-	-	27,715
Medical Supplies & Oxygen	103,954	2,568 (8)	7,342 (7)	99,180
Taxes & Insurance	48,153	-	3,000 (2) 7,629 (5)	37,524
Legal Fees	1,127	-	-	1,127
Cost of Capital	232,263	23 (1) <u>1,368 (4)</u>	365 (2) <u>2,819 (6)</u>	230,470
Subtotal	2,702,972	5,063	25,631	2,682,404

**MARION NURSING CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1997  
AC# 3-MAR-J7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	17,017	-	-	17,017
Non-Allowable	236,568	4,742 (2) 3,099 (3) 7,629 (5) 2,819 (6) <u>6,238 (7)</u>	23 (1) 1,368 (4)	259,704
Total Operating Expenses	<u>\$2,956,557</u>	<u>\$29,590</u>	<u>\$27,022</u>	<u>\$2,959,125</u>
TOTAL PATIENT DAYS	<u>*31,156</u>	<u>-</u>	<u>-</u>	<u>31,156</u>

\*Adjusted to 97% Occupancy

TOTAL BEDS 88

**MARION NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-MAR-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 3,678	
	Cost of Capital	23	
	Accumulated Depreciation		\$ 1,613
	Nonallowable		23
	Other Equity		2,065
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	4,742	
	Cost of Capital		365
	Administration		1,377
	Taxes, Insurance, and Licenses		3,000
	To disallow reported organization and start-up costs HIM-15-1, Section 2134.10 State Plan, Attachment 4.19D		
3	Nonallowable	3,099	
	Administration		3,099
	To remove nonallowable working capital interest expense HIM-15-1, Section 202.2 State Plan, Attachment 4.19D		
4	Cost of Capital	1,368	
	Nonallowable		1,368
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
5	Nonallowable	7,629	
	Taxes, Insurance, and Licenses		7,629
	To remove Officers' Life Insurance State Plan, Attachment 4.19D		

**MARION NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-MAR-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Cost of Capital - Loan Cost	2,819	2,819
	To disallow loan cost related to nonallowable debt State Plan, Attachment 4.19D		
7	Nonallowable Dietary Medical Supplies	6,238 1,104	7,342
	To adjust Part B supplies and reclassify dietary supplies State Plan, Attachment 4.19D		
8	Medical Supplies & Oxygen Other Equity	2,568	2,568
	To properly charge expenses applicable to the current period HIM-15-1, Section 2302.1		
	TOTAL ADJUSTMENTS	<u>\$33,268</u>	<u>\$33,268</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MARION NURSING CENTER, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1997  
AC# 3-MAR-J7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1814</u>
Deemed Asset Value (Per Bed)	34,069
Number of Beds	<u>88</u>
Deemed Asset Value	2,998,072
Improvements Since 1981	285,086
Accumulated Depreciation at 9/30/97	<u>(504,847)</u>
Deemed Depreciated Value	2,778,311
Market Rate of Return	<u>0.067</u>
Total Annual Return	186,147
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	186,147
Depreciation Expense	43,917
Amortization Expense	406
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	230,470
Total Patient Days (Minimum 97% Occupancy)	<u>31,156</u>
Cost of Capital Per Diem	\$ <u><u>7.40</u></u>

**MARION NURSING CENTER, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1997  
AC# 3-MAR-J7

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$3.28
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.27</u>
Reimbursable Cost of Capital Per Diem	\$7.27
Cost of Capital Per Diem	<u>7.40</u>
Cost of Capital Per Diem Limitation	<u>\$(.13)</u>